

Message Text

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PAGE 01 STATE 114778

47

ORIGIN EB-11

INFO OCT-01 ARA-16 ISO-00 L-03 SS-20 CIAE-00 INR-10

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----- 114732

R 312105Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS

C O N F I D E N T I A L STATE 114778

E.O. 11652: N/A

TAGS: EMIN, ETRD, VE

SUBJEC : VENEZUELAN IRON ORE: MEETING WITH US STEEL

1. AT DEPARTMENT'S INVITATION, SENIOR US STEEL (USS) OFFICIALS MET MAY 29 WITH ACTING ASSISTANT SECRETARY;EB ; KATZ AND DEPTOFFS (ARA, EB, L) TO REVIEW RECENT VENEZUELAN IRON ORE DEVELOPMENTS, AND OUTLOOK. USS OFFICIALS PARTICIPATING IN MEETING WERE BOARD VICE CHAIRMAN R. HEATH LARRY; AND VICE PRESIDENTS DONALD ROLLINS AND RAYMOND RYAN.

2. USS OFFICIALS APPEARED GENERALLY HOPEFUL CONCERNING PROSPECT FOR FORTHCOMING IRON ORE NEGOTIATIONS WITH GOV, BASING THIS OPTIMISM ON ROLLINS-RYAN DISCUSSIONS WITH GOV IN CARACAS EARLIER THIS MONTH. ROLLINS SAID VENEZUELAN APPEARED COGNIZANT OF SERVICES USS HAD RENDERED VENEZUELAN ECONOMY IN DEVELOPING LOCAL IRON ORE INDUSTRY, AND, MORE IMPORTANTLY, GOV APPEARED FEEL THAT USS STILL HAD SOMETHING
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CONFIDENTIAL

PAGE 02 STATE 114778

TO OFFER VENEZUELA, E.G., TECHNOLOGY. AS RESULT, ROLLINS

GAINED IMPRESSION IN CARACAS EARLIER THIS MONTH THAT GOV WOULD LIKE USS TO REMAIN IN VENEZUELA. ROLLINS ALSO EXPRESSED SATISFACTION THAT PEREZ GUERRERO (PG) APPARENTLY WILL PLAY A KEY ROLE IN USS-GOV IRON ORE NEGOTIATIONS, NOTING THAT RYAN (WHO WILL BE RESIDENT IN CARACAS AS USS BOARD CHAIRMAN SPEER'S PERSONAL REP) HAD SATISFACTORILY NEGOTIATED A COMPLICATED TAX SETTLEMENT WITH PG. (PRIOR

TO START OF MAY 29 MEETING, RYAN MENTIONED TO DEPTOFF HE FOUND IN PREVIOUS NEGOTIATIONS WITH PG THAT, UNLIKE OTHERS, PG DID NOT BRING PRELIMINARY AGREEMENT BACK FOR RE-NEGOTIATION ON GROUNDS HIS SUPERIORS WOULD NOT BUY ORIGINAL AGREEMENT.)

3. RE COMING NEGOTIATIONS THEMSELVES, ROLLINS DESCRIBED USS ATTITUDE A "COOPERATIVE AND FLEXIBLE, BUT NOT ROLL OVER." RYAN NOTED THAT IN MEETING WITH AMBASSADOR MCCLINTOCK EARLIER THIS MONTH, AMBASSADOR AND USS AGREED THAT USS SHOULD AVOID "LEGALISTIC" APPROACH IN NEGOTIATIONS. ROLLINS REQUESTED THAT USG KEEP USS INFORMED OF VENEZUELAN DEVELOPMENTS, AND ALLOW USS TO PROCEED WITH ACTUAL NEGOTIATIONS ON ITS OWN. IF FURTHER DOWN THE TRACK USS FOUND ITSELF FACING SERIOUS PROBLEMS WITH GOV IT WOULD CALL ON USG FOR ASSISTANCE.

4. ON COMPENSATION ISSUE, RYAN NOTED THAT IN USS DISCUSSIONS WITH EMBASSY CARACAS EARLIER THIS MONTH, EMBASSY MAY HAVE GAINED IMPRESSION THAT USS MIGHT INSIST THAT COMPENSATION BE ON A "GOING CONCERN" BASIS, AND SAID THIS NOT SO. HOWEVER, IN COMPENSATION NEGOTIATIONS USS PLANS TO POINT OUT TO GOV CERTAIN TYPES OF USS, VENEZUELAN ORE INVESTMENT THAT COULD NOT BE CAPITALIZED (AND THUS NOT SHOWN INBOOK VALUE"), BUT WHICH NEVERTHELESS HAVE AND ARE PROVIDING VALUE TO VENEZUELAN ECONOMY. ACCORDING TO RYAN, USS REALIZES THAT GOV MAY NOT BE ABLE TO PAY CASH FOR THIS TYPE OF INVESTMENT, BUT FEELS IT MAY BE POSSIBLE FOR GOV TO COMPENSATE USS "IN OTHER WAYS." (ALTHOUGH NOTHING SPECIFIC WAS MENTIONED, USS MAY HAVE BEEN ALLUDING HERE TO GOV ASSURANCES OF A CONTINUED ORE SUPPLY TO USS.) CONCLUSION OF MEETING WAS THAT USS WOULD

CONFIDENTIAL

PAGE 03 STATE 114778

MAINTAIN FLEXIBLE APPROACH WITH RESPECT TO VARIOUS WAYS IN WHICH COMPANY MIGHT APPROPRIATELY BE COMPENSATED.

5. DEPTOFFS NOTED THAT IN PREVIOUS NATIONALIZATION/ EXPROPRIATION CASES IN VARIOUS PARTS OF WORLD, CALCULATION AND PAYMENT OF COMPENSATION HAD TAKEN WIDE RANGE OF FORMS, AND THAT USG HAS DEVELOPED INFORMATION ON COMPENSATION. WE OFFERED TO SHARE THIS INFORMATION WITH

USS. USS EXPRESSED APPRECIATION FOR OFFER, AND AGREED TO STAY IN CLOSE TOUCH WITH DEPARTMENT AND EMBASSY ON VENEZUELAN DEVELOPMENTS. USS ALSO EXPRESSED WARM APPRECIATION FOR ASSISTANCE PROVIDED THUS FAR BY EMBASSY CARACAS.

6. DEPARTMENT ATTEMPT TO ARRANGE SIMILAR MEETING WITH

BETHLEHEM STEEL OFFICIALS UNSUCCESSFUL DUE TO ABSENCE FROM US OF KEY BETHLEHEM OFFICIALS CONCERNED WITH VENEZUELAN ORE PROBLEM (VICE PRESIDENT-LAW VAN NUYS AND ASSISTANT GENERAL COUNSEL BUCHANAN). DEPARTMENT PLANS TO MEET WITH BETHLEHEM AS SOON AS MEETING CAN BE ARRANGED. KISSINGER

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